Total Number of Pages: 18
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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[X] Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: **December 31, 1994**

OR

[ ] Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission File Number:
0-19836

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America Online, Inc.
(Exact name of registrant as specified in its charter)

Delaware	54-1322110
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

8619 Westwood Center Drive, Vienna, Virginia 22182-2285
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (703) 448-8700

Former name, former address, and former year, if changed since last report: Not applicable

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ___X___ No ________

Indicate the number of shares outstanding of each of the Issuer's classes of Common Stock, as of the latest practicable date.

Title of each class
Common stock $.01 par value
Shares outstanding on January 31, 1995..........16,625,846

AMERICA ONLINE, INC.

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AMERICA ONLINE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except share data)

	December 31, 1994 (Unaudited)	June 30, 1994
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,996	$ 43,891
Short-term investments	26,377	24,052
Trade accounts receivable	10,849	8,547
Receivables from affiliate	2,047	1,466
Other receivables	3,468	570
Prepaid expenses and other current assets	12,077	5,753
Deferred subscriber acquisition costs	36,655	25,459
Total current assets	134,469	109,738
Property and equipment at cost, net	27,880	20,306
Other assets:		
Product development costs, net	10,534	7,912
Deferred subscriber acquisition costs	945	933
License rights, net	603	53
Other assets	2,930	2,800
Other intangible assets	7,550	-
Deferred income taxes	17,917	12,842
	$ 202,828	$ 154,584
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 44,898	$ 15,642
Accrued personnel costs	2,164	896
Other accrued expenses and liabilities	5,300	13,076
Deferred revenue	7,279	4,488
Deferred income taxes	13,644	9,610
Notes payable	253	253
Revolving line of credit	-	1,690
Current portion of long-term debt and capital lease obligations	267	344
Total current liabilities	73,805	45,999
Long-term liabilities:		
Notes payable	5,709	5,836
Capital lease obligations	1,074	1,179
Deferred income taxes	4,273	3,232
Deferred rent	34	41
Total liabilities	84,895	56,287
Stockholders' equity:		
Preferred stock, $.01 par value; 5,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 100,000,000 shares authorized, 16,592,340 and 15,385,606 shares issued and outstanding at December 31, 1994 and June 30, 1994, respectively	166	154
Additional paid-in capital	156,329	98,990
Accumulated deficit	(38,562)	(847)
Total stockholders' equity	117,933	98,297
	$ 202,828	$ 154,584

See accompanying notes.

AMERICA ONLINE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

	Three months ended December 31, 1994	Three months ended December 31, 1993
	(Unaudited)	
Revenues:		
Online service revenues	$ 69,712	$ 20,292
Other revenues	4,286	4,239
Total revenues	73,998	24,531
Costs and expenses:		
Cost of revenues	41,506	14,660
Marketing	15,593	4,950
Product development	3,377	1,046
General and administrative	6,408	3,355
Acquired research and development	42,785	-
Total costs and expenses	109,669	24,011
Income (loss) from operations	(35,671)	520
Other income	750	313
Income (loss) before provision for income taxes	(34,921)	833
Provision for income taxes	(4,060)	(763)
Net income (loss)	$ (38,981)	$ 70
Earnings per share:	$ (2.49)	0.00
Weighted average shares outstanding:	15,653	16,142

See accompanying notes.

AMERICA ONLINE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands, except per share data)

	Six months ended December 31, 1994	Six months ended December 31, 1993
	(Unaudited)	
Revenues:		
Online service revenues	$ 119,768	$ 34,591
Other revenues	8,653	9,019
Total revenues	128,421	43,610
Costs and expenses:		
Cost of revenues	73,461	25,825
Marketing	26,888	8,669
Product development	5,134	2,086
General and administrative	11,688	5,979
Acquired research and development	42,785	-
Total costs and expenses	159,956	42,559
Income (loss) from operations	(31,535)	1,051
Other income	1,438	717
Merger expenses	(1,710)	-
Income (loss) before provision for income taxes	(31,807)	1,768
Provision for income taxes	(5,908)	(1,395)
Net income (loss)	$ (37,715)	$ 373
Earnings per share:		
Primary	$ (2.43)	$ 0.02
Fully diluted	$ (2.43)	$ 0.02
Weighted average shares outstanding:		
Primary	15,526	15,634
Fully diluted	15,526	15,780

See accompanying notes.

AMERICA ONLINE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Six months ended December 31, 1994	1993
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ (37,715)	$ 373
Adjustments to reconcile net income to net		
Cash provided by operating activities:		
Depreciation and amortization	2,647	1,254
Provision for bad debts	-	163
Accrued interest	-	31
Amortization of subscriber acquisition costs	21,840	6,284
Loss on sale of property and equipment	37	5
Charge for acquired research and development	42,785	-
Changes in assets and liabilities:		
Trade accounts receivable	(2,302)	(1,549)
Receivables from affiliate	(581)	(1,889)
Other receivables	(2,898)	(325)
Prepaid expenses and other current assets	(6,191)	(601)
Other assets	(67)	(11)
Trade accounts payable	28,657	4,506
Accrued personnel costs	1,236	57
Other accrued expenses and liabilities	(7,775)	2,202
Deferred revenue	2,791	306
Deferred income taxes	5,908	1,395
Deferred rent	(7)	(45)
Total adjustments	86,080	11,783
Net cash provided by operating activities	48,365	12,156
Cash flows from investing activities:		
Short-term investments	(2,325)	-
Purchase of property and equipment	(9,071)	(10,661)
Product development costs	(3,304)	(2,023)
Sale of property and equipment	180	95
Subscriber acquisition costs	(33,048)	(12,117)
Proceeds from maturity of certificate of deposit	-	267
Acquisition costs	(1,694)	-
Net cash used in investing activities	(49,262)	(24,439)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	2,001	62,895
Proceeds from issuance of preferred stock, net	-	2,046
Proceeds from note payable	-	6,320
Proceeds from issuance of convertible subordinated debt	-	1,000
Principal payments under capital lease obligations	(134)	(95)
Net payments on revolving line of credit	(1,690)	(306)
Principal and accrued interest payments on notes payable	(175)	(185)
Net cash provided by financing activities	2	71,675
Net increase (decrease) in cash and cash equivalents	(895)	59,392
Cash and cash equivalents at beginning of period	43,891	15,001
Cash and cash equivalents at end of period	$ 42,996	$ 74,393
Supplemental cash flow information		
Cash paid during the period for:		
Interest	238	300
Income taxes	-	-

See accompanying notes.

AMERICA ONLINE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements, which include the accounts of America Online, Inc., its wholly-owned subsidiaries, Redgate Communications Corpóration, Booklink Technologies, Inc. and Navisoft, Inc., and a majority-owned subsidiary, 2Market, Inc., have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. All significant intercompany transactions and balances have been eliminated in consolidation. Operating results for the three-month period ended December 31, 1994, are not necessarily indicative of the results that may be expected for the full year ending June 30, 1995. For further information, refer to the financial statements and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994.

Note 2. Stockholders' Equity

In October 1994, the Company approved an increase of its authorized common stock to 100,000,000 shares.

In November 1994, the Company effected a two-for-one split of the outstanding shares of common stock. Accordingly, all data shown in the accompanying consolidated financial statements and notes has been retroactively adjusted to reflect the stock split.

Note 3. Agreement with Apple Computer

In December 1992 the Company entered into a seven year licensing and development agreement (with renewal provisions to extend the agreement through November 30, 2004) with Apple Computer, Inc. ("Apple"). Under the agreement, the Company granted Apple a non-exclusive license to use the America Online services platform to provide Apple-branded online services, and has agreed to provide development services to Apple on a fee for services basis. The Company will receive a royalty based on usage, with a total minimum royalty of $15 million over a five year period following the commercial launch of the Apple-branded online service. In addition to royalties, the Company has also received development fees under the Apple agreement. Apple commercially launched its branded online service, called eWorld, in June 1994.

As part of the agreement, the Company issued warrants to Apple to purchase 1,000,000 shares of America Online common stock at an exercise price of $12.50 per share. The warrants are exercisable during the term of the agreement. Under certain circumstances related to a change in control of the Company, the Company can be obligated to purchase the warrants.

Note 4. Agreement with Sprint

In April 1993 the Company entered into an agreement, having a term ending March 31, 1999, with Sprint which provides the Company with more favorable pricing, effective as of January 1, 1993, for use of the Sprint network. Under the agreement, Sprint received a warrant, exercisable during the term of the agreement and subject to certain performance standards specified in the agreement, to purchase 900,000 shares of America Online common stock at a price of $15.625 per share.

In October 1994, the Company amended the agreement with Sprint, effective as of October 1, 1994. The amendment provides the Company with more favorable pricing, particularly with respect to higher baud speed access charges, in return for an increase in the Company's' minimum annual purchase commitment to $100 million in each of calendar years 1995 and 1996 (subject to certain competitive criteria for price and quality).

Note 5. Income Taxes

The components of the provision for income taxes are as follows:

	Quarter Ended 12/31/94	Six Months Ended 12/31/94
Current:		
Federal	$ -	$ -
State	-	-
Total current	$ -	$ -
Deferred:		
Federal	$ 3,633	$ 5,286
State	427	622
Total deferred	$ 4,060	$ 5,908
Total	$ 4,060	$ 5,908

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 34% to income before provision for income taxes as follows:

	Quarter Ended 12/31/94	Six Months Ended 12/31/94
(Benefit) computed at statutory rate	$ (11,873)	$ (10,814)
Increase resulting from:		
State taxes, net of federal income tax benefit	427	622
Nondeductible merger expenses	-	581
Non-deductible charge for purchased research and development	14,547	14,547
Loss for which no tax benefit is derived	911	911
Other	48	61
	$ 4,060	$ 5,908

Deferred income taxes arise because of differences in the treatment of income and expense items for financial reporting and income tax purposes, primarily relating to subscriber acquisition and product development costs.

As of December 31, 1994, the Company had available net operating loss carryforwards of approximately $61,800,000 for tax purposes, which will be available, subject to certain annual limitations, to offset future taxable income. If not used, these loss carryforwards will expire between 2002 and 2010. The Company's net operating loss carryforward includes cumulative deductions of $34,882,000 relating to stockholders' equity (primarily as a result of the exercise of stock options). To the extent that net operating loss carryforwards, when realized, relate to these deductions, the resulting benefits will be credited to stockholders' equity.

Significant components of the Company's deferred tax liabilities and assets as of December 31, 1994 are as follows:

Deferred tax liabilities:	
Capitalized software costs	$ 3,921,000
Deferred subscriber acquisition costs	13,996,000
Net deferred tax liabilities	$ 17,917,000
Deferred tax assets:	
Net operating loss carryforward	$ 20,668,000
Total deferred tax assets	20,668,000
Valuation allowance for deferred assets	(2,751,000)
Net deferred tax assets	$ 17,917,000

Note 6. Business Combinations

Redgate Communications Corporation

On August 19, 1994, Redgate Communications Corporation ("RCC") was merged with and into a subsidiary of America Online, Inc. ("AOL") and 894,650 shares of AOL's common stock was issued in exchange for all of the outstanding common and preferred stock and warrants of RCC. Additionally, 200,574 shares of AOL's common stock was reserved for outstanding stock options issued by RCC and being assumed by AOL. The merger was accounted for as a pooling of interests, and accordingly, the accompanying financial statements have been restated to include the accounts and operations of RCC for all periods presented prior to the merger.

Separate unaudited results of the combining entities for the three months ended September 30, 1994 and 1993 are as follows (amounts in thousands):

	Three months ended	
	Sept. 30, 1994	Sept. 30, 1993
Total revenues:		
AOL	$ 50,783	$ 15,955
RCC	3,813	3,124
Less intercompany sales	(173)	-
	$ 54,423	$ 19,079
Net income:		
AOL	$ 3,018	$ 1,029
RCC	(42)	(726)
Merger expenses	(1,710)	-
	$ 1,266	$ 303

In connection with the merger of AOL and RCC, $1,710,000 of merger expenses were recognized and have been charged to merger expenses during the three month period ended September 30, 1994. These nonrecurring expenses include investment banking fees, legal and accounting fees, and other miscellaneous expenses.

Navisoft, Inc.

On November 30, 1994, Navisoft, Inc. ("Navisoft") was merged with and into a subsidiary of America Online, Inc. ("AOL") and 130,000 shares of AOL's common stock was issued in exchange for all of the outstanding common stock, preferred stock, options and warrants of Navisoft. Additionally, 22,583 shares of AOL's common stock was reserved for

outstanding stock options issued by Navisoft and being assumed by AOL. The acquisition was accounted for under the purchase method, and accordingly, the assets and liabilities were recorded based on their fair values at the date of acquisition. Of the aggregate purchase price of approximately $6,610,000, $5,424,000 was allocated to in-process research and development and $957,000 was allocated to other intangible assets. The amount of the purchase price allocated to in-process research and development was charged to the Company's operations at the time of the acquisition. Pending the results of an in-process valuation, the Company may take an additional charge to operations for in-process research and development in the March 1995 quarter. Results of operations include Navisoft from the date of acquisition.

Booklink Technologies, Inc.

On December 23, 1994, Booklink Technologies, Inc. ("Booklink") was merged with and into a subsidiary of America Online, Inc. ("AOL") and 710,000 shares of AOL's common stock was issued in exchange for all of the outstanding common stock of Booklink. Additionally, 128,912 shares of AOL's common stock was reserved for outstanding stock options issued by Booklink and being assumed by AOL. The acquisition was accounted for under the purchase method, and accordingly, the assets and liabilities were recorded based on their fair values at the date of acquisition. Of the aggregate purchase price of approximately $43,925,000, $37,361,000 was allocated to in-process research and development and $6,593,000 was allocated to other intangible assets. The amount of the purchase price allocated to in-process research and development was charged to the Company's operations at the time of the acquisition. Pending the results of an in-process valuation, the Company may take an additional charge to operations for in-process research and development in the March 1995 quarter. Results of operations include Booklink from the date of acquisition.

The following unaudited pro forma information includes only preliminary adjustments relating to the purchase price allocation and has been prepared to give effect to the merger as if such transaction had occurred at the beginning of the period presented. Final purchase price allocations, if any, will be determined at a later date and may differ from the estimates below. This pro forma information is not necessarily indicative of the combined results that would have occurred had the acquisition taken place at the beginning of the period, nor is it necessarily indicative of results that may occur in the future. Pro forma information is not included for the six months ended December 31, 1993 as Booklink was not formed until February 1994. The amount of the purchase price allocated to in-process research and development for both the Navisoft and Booklink business combinations has been excluded from the pro forma calculations of net income as they are nonrecurring items.

(in thousands, except per share data)

	Pro Forma Six months ended 12/31/94 (unaudited)
Revenues	$ 128,521
Income from operations	8,509
Net income	3,089
Pro forma income per share	$ 0.15

Note 7. Subsequent Event

In January 1995 the Board of Directors amended the Company's Shareholder Rights Agreement, first adopted in April 1993. The threshold at which an acquiring person or entity will "trigger" the rights was lowered from 25% to 15%.

In November 1994 the Company entered into an agreement to acquire substantially all of the assets of Advanced Network & Services ("ANS"), including all of the stock of ANS+Core, its wholly-owned commercial subsidiary. The Company will pay $35 million for the acquisition, which is expected to be completed in mid-February 1995. The purchase price will comprise approximately $20 million in cash and $15 million in common stock, valued at the average bid price for the 20 days prior to closing.

Item 2. Management's Discussion and Analysis Of Financial Condition and Results of Operations

The following information should be read in conjunction with the consolidated condensed financial statements and the notes thereto included in Item 1 of this Quarterly Report, and the financial statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report on Form 10-K for the year ended June 30, 1994.

The Company's online service revenues are generated primarily from subscribers paying a monthly membership fee and hourly charges based on usage in excess of the number of hours of usage provided as part of the monthly fee. Through December 31, 1994, the Company's standard monthly membership fee, which includes five hours of service, was $9.95, with a $3.50 hourly fee for usage in excess of five hours per month. Effective January 1, 1995 the hourly fee for usage in excess of five hours per month decreased from $3.50 to $2.95, while the monthly membership fee remained unchanged at $9.95.

The Company's other revenues are generated from providing new media and interactive marketing services, including the aggregation and management of multimedia content databases, new media application development and outsourced marketing communications services. Through its majority-owned subsidiary, 2Market, Inc., the Company generates revenues through interactive shopping services for CD-ROM and online. In addition, the Company has received development and royalty revenues related principally to its agreement with Apple Computer, Inc.

The competitive environment in the online services business is expected to become more intense. The recent announcement by Microsoft Corporation of its planned online service and the recent acquisition by AT&T of the Interchange Network are expected to impact the competitive environment. Competitive pressures could result in lower pricing which could negatively impact the Company's operating margins.

Results of Operations

Revenues

For the three months ended December 31, 1994, total revenues increased from $24,531,000 to $73,998,000, or 202%, over the three months ended December 31, 1993.

Online service revenues increased from $20,292,000 to $69,712,000, or 244%. This increase was primarily attributable to a 272% increase in revenues from IBM-compatible subscribers and a 201% increase in revenues from Macintosh subscribers as a result of a 225% increase in IBM-compatible subscribers and a 156% increase in Macintosh subscribers. The percentage increase in online service revenues for the three months ended December 31, 1994 was greater than the percentage increase in subscribers principally due to an increase in the average monthly online service revenue per subscriber. Other revenues increased from $4,239,000 to $4,286,000, or 1%.

For the six months ended December 31, 1994, total revenues increased from $43,610,000 to $128,421,000, or 194% over the six months ended December 31, 1993. Online service revenues increased from $34,591,000 to $119,768,000, or 246%. This increase was primarily attributable to a 275% increase in revenues from IBM-compatible subscribers and a 210% increase in revenues from Macintosh subscribers as a result of a 225% increase in IBM-compatible subscribers and a 156% increase in Macintosh subscribers. The percentage increase in online service revenues for the six months ended December 31, 1994 was greater than the percentage increase in subscribers principally due to an increase in the average monthly online service revenue per subscriber. Other revenues decreased from $9,019,000 to $8,653,000, or 4%.

Cost of Revenues

Cost of revenues includes direct network-related costs, consisting primarily of data and voice communication costs, costs associated with operating the host computer system and providing customer support, royalties paid to information and service providers and production and other expenses related to marketing services. For the three months ended December 31, 1994 cost of revenues increased from $14,660,000 to $41,506,000, or 183%, over the three months ended December 31, 1993, and decreased as a percentage of total revenues from 59.8% to 56.1%. For the six months ended December 31, 1994 cost of revenues increased from $25,825,000 to $73,461,000, or 184% over the six months ended December 31, 1993, and decreased as a percentage of total revenues from 59.2% to 57.2%.

The increase in cost of revenues was primarily attributable to an increase in data communication costs, customer support costs and royalties paid to information and service providers. Data communication costs increased primarily as a result of the larger customer base and more usage by customers. Customer support costs, which include personnel and telephone costs associated with providing customer support, were higher as a result of the larger customer base and a large number of new subscriber registrations. Royalties paid to information and service providers increased as a result of a larger customer base and more usage and the Company adding more service content to broaden the appeal of the America Online service.

The decrease in cost of revenues as a percentage of total revenues is primarily attributable to a decrease (as a percentage of total revenues) in production costs related to marketing services and personnel related costs, partially offset by an increase (as a percentage of total revenues) in data communication costs, primarily resulting from an increase in higher baud speed usage at a higher variable rate. The lower pricing contained in the October 1994 Sprint amendment is expected to partially offset the higher costs related to higher speed access and lower hourly pricing, which became effective January 1, 1995.

Marketing

Marketing expenses include the costs to acquire and retain subscribers and other general marketing expenses. For the three months ended December 31, 1994, marketing expenses increased from $4,950,000 to $15,593,000, or 215%, over the three months ended December 31, 1993, and increased as a percentage of total revenues from 20.2% to 21.1%. For the six months ended December 31, 1994, marketing expenses increased from $8,669,000 to $26,888,000, or 210%, over the six months ended December 31, 1993. The increase in marketing expenses was primarily due to an increase in the number and size of marketing programs to expand the Company's subscriber base as well as marketing expenses related to interactive shopping services.

Product Development

Product development costs include research and development expenses, other product development costs and the amortization of software costs. For the three months ended December 31, 1994, product development costs increased from $1,046,000 to $3,377,000, or 223%, over the three months ended December 31, 1993, and increased as a percentage of total revenues from 4.3% to 4.6%. For the six months ended December 31, 1994, product development costs increased from $2,086,000 to $5,134,000, or 146%, over the six months ended December 31, 1993, and decreased as a percentage of total revenues from 4.8% to 4.0%. The increase in product development costs was attributable to an increase in personnel costs related to an increase in the number of technical employees, as well as product development costs related to interactive shopping services. The increase in product development costs as a percentage of total revenues in the three months ended December 31, 1994 was a result principally of product development costs related to interactive shopping services. The decrease in product development costs as a percentage of total revenues for the six months ended December 31, 1994 was principally a result of the substantial growth in revenues, which more than offset the additional product development costs. Product development costs, before capitalization and amortization, increased by 155% and 125% in the three and six month periods ended December 31, 1994, respectively.

General and Administrative

For the three months ended December 31, 1994, general and administrative expenses increased from $3,355,000 to $6,408,000, or 91%, over the three months ended December 31, 1993, and decreased as a percentage of total revenues from 13.7% to 8.7%. For the six months ended December 31, 1994, general and administrative expenses increased from $5,979,000 to $11,688,000, or 95%, over the six months ended December 31, 1993, and decreased as a percentage of total revenues from 13.7% to 9.1%. The increase in general and administrative costs was principally attributable to higher personnel, office and travel expenses related to an increase in the number of employees. The decrease in general and administrative costs as a percentage of total revenues was a result of the substantial growth in revenues combined with the semi-variable nature of many of the general and administrative costs.

Acquired Research and Development

Acquired research and development costs relate to in-process research and development purchased pursuant to the Company's acquisitions of Booklink Technologies, Inc.

and Navisoft, Inc., and charged to the Company's operations at the time of the respective acquisition.

Other Income

Other income consists primarily of rental and investment income net of interest expense. For the three months ended December 31, 1994, other income increased from $313,000 to $750,000, over the three months ended December 31, 1993. For the six months ended December 31, 1994, other income increased from $717,000 to $1,438,000, over the six months ended December 31, 1993. The increase in both periods was primarily attributable to an increase in interest income generated by higher levels of cash available for investment, partially offset by a decrease in rental income received.

Merger Expenses

Non-recurring merger expenses totaling $1,710,000 were recognized in the three months ended September 30, 1994 in connection with the merger of America Online, Inc. and Redgate Communications Corporation.

Income Taxes

Income tax expense was $763,000 and $4,060,000 in the three months ended December 31, 1993 and 1994, respectively, and $1,395,000 and $5,908,000 in the six months ended December 31, 1993 and 1994, respectively.

Liquidity and Capital Resources

The Company has financed its operations through cash generated from operations, funding by third parties for certain product development and marketing activities, and sale of its common stock. Net cash provided by operating activities was $12,156,000 and $48,365,000 in the six months ended December 31, 1993 and 1994, respectively. Net cash used in investing activities was $24,439,000 and $49,262,000 in the six months ended December 31, 1993 and 1994, respectively. These investing activities included investments in subscriber acquisition costs of $12,117,000 and $33,048,000 in the six months ended December 31, 1993 and 1994, respectively.

In December 1993, the Company completed a public stock offering of 1,000,000 shares of common stock which generated net cash proceeds of approximately $62,700,000.

The Company uses its working capital to finance ongoing operations and to fund marketing programs and the development of its products and services. The Company plans to continue to invest aggressively in acquisition marketing programs to expand its subscriber base, as well as in computing and support infrastructure. Additionally, the Company expects to use a portion of its cash for the acquisition and subsequent funding of technologies, products and businesses complementary to the Company's current business.

In February 1995 the Company expects to fund the $35 million acquisition of Advanced Network & Services with $20 million in cash and $15 million in common stock, valued at the average market price for the 20 days prior to closing.

As part of its overall network portfolio strategy, the Company is building its own TCP/IP dial-up data network. The buildout of this network requires a substantial investment in telecommunications equipment, which the Company plans to finance through leasing.

The Company believes that inflation has not had a material effect on its results of operations.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders

On October 27, 1994 the Company submitted various matters to a vote of its shareholders at its Annual Meeting of Shareholders. A brief description of matters voted upon at the Meeting and the results of the voting follows:

(1) To elect three members to the Board of Directors to serve for a term ending in 1997 and until their successors are duly elected and qualified.

Alexander M. Haig, James V. Kimsey and Scott C. Smith were elected to the Board of Directors to serve for a three year period ending in 1997.

(2) To consider and act upon amendments to the Company's 1992 Employee, Director and Consultant Stock Option Plan to increase the number of authorized shares for issuance, and to limit the annual grant of options to an individual.

For	3,399,040
Against	2,029,386
Abstain	11,073

(3) To consider and act upon an amendment to the Company's Restated Certificate of Incorporation to increase the authorized number of shares of Common Stock.

For	5,389,798
Against	1,412,812
Abstain	8,439

(4) To consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as the Company's independent public accountants for the fiscal year ending June 30, 1995.

For	6,793,403
Against	12,365
Abstain	5,281

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 1994.

AMERICA ONLINE, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICA ONLINE, INC.

DATE: February 14, 1995

SIGNATURE: ______________________
Stephen M. Case
Chief Executive Officer

DATE: February 14, 1995

SIGNATURE: ______________________
Lennert J. Leader
Chief Financial Officer
(Principal Financial and Accounting Officer)